

FINANCIAL STATEMENTS

Kalkaska County Hospital Authority  
Years Ended June 30, 2007 and 2006  
With Reports of Independent Auditors

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Kalkaska County Hospital Authority	County Kalkaska
Fiscal Year End June 30, 2007	Opinion Date September 12, 2007	Date Audit Report Submitted to State October 5, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	No matters reported.	
Other (Describe)	<input type="checkbox"/>	No other documents.	
Certified Public Accountant (Firm Name) Ernst & Young LLP		Telephone Number (616) 774-0710	
Street Address 171 Monroe Avenue, N.W., Suite 1000		City Grand Rapids	State MI
Zip 49503		License Number 110121611	
Authorizing CPA Signature 		Printed Name Martin R. Jennings	

# Kalkaska County Hospital Authority

## Financial Statements

Years Ended June 30, 2007 and 2006

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## Report of Independent Auditors

The Board of Directors  
Kalkaska County Hospital Authority

We have audited the accompanying statements of net assets of Kalkaska County Hospital Authority (the Authority) as of June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Authority's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kalkaska County Hospital Authority as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2007, on our consideration of Kalkaska County Hospital Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The accompanying financial statements do not present management's discussion and analysis of the Authority's financial position and operating results. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

*Ernst & Young LLP*

September 12, 2007

Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of the Financial Statements Performed in Accordance With  
*Government Auditing Standards*

The Board of Directors  
Kalkaska County Hospital Authority

We have audited the financial statements of Kalkaska County Hospital Authority (the Authority) as of and for the years ended June 30, 2007 and 2006, and have issued our report thereon dated September 12, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst & Young LLP*

September 12, 2007

# Kalkaska County Hospital Authority

## Statements of Net Assets

	June 30	
	2007	2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,343,367	\$ 2,956,072
Accounts receivable	2,324,062	1,886,527
Third-party settlements	389,894	791,114
Prepaid expenses	259,419	327,523
Total current assets	6,316,742	5,961,236
Assets limited as to use	4,396,932	3,275,741
Property and equipment	12,504,542	12,113,257
Deferred charges	10,000	4,729
Total assets	<u>\$ 23,228,216</u>	<u>\$ 21,354,963</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Current maturities – long-term debt	\$ –	\$ 750,000
Trade accounts payable	1,115,468	947,433
Third-party settlements	354,800	572,300
Accrued liabilities and other	1,985,775	1,646,611
Total current liabilities	3,456,043	3,916,344
Long-term debt, less current maturities	–	–
Total liabilities	3,456,043	3,916,344
Net assets:		
Invested in capital assets, net of related debt	12,504,542	11,363,257
Unrestricted	7,267,631	6,075,362
Total net assets	19,772,173	17,438,619
Total liabilities and net assets	<u>\$ 23,228,216</u>	<u>\$ 21,354,963</u>

*See accompanying notes.*

# Kalkaska County Hospital Authority

## Statements of Revenues, Expenses, and Changes in Net Assets

	<b>Year Ended June 30</b>	
	<b>2007</b>	<b>2006</b>
<b>Operating revenue</b>		
Net patient service revenue	\$ 18,878,940	\$ 16,883,403
Other	850,321	751,354
Proportionate share revenue	—	4,238
Total operating revenue	<u>19,729,261</u>	<u>17,638,995</u>
<b>Operating expenses</b>		
Salaries and wages	7,849,827	7,405,724
Employee benefits and payroll taxes	2,671,683	2,596,122
Medical supplies and drugs	2,144,836	1,876,642
Professional services and consultant fees	478,374	383,244
Purchased services	2,224,427	2,267,302
Insurance	226,599	209,988
Utilities	500,109	497,706
Repairs and maintenance	342,432	231,468
Depreciation	1,154,652	1,205,403
Other	1,090,554	738,565
Total operating expenses	<u>18,683,493</u>	<u>17,412,164</u>
Operating income	<u>1,045,768</u>	<u>226,831</u>
<b>Other income (expense)</b>		
Investment income	186,998	74,014
Contributions	12,795	4,437
Interest on debt related to capital assets	(31,986)	(67,861)
Tax levy revenue	1,119,979	1,086,898
Total other income	<u>1,287,786</u>	<u>1,097,488</u>
Increase in net assets	2,333,554	1,324,319
Net assets at beginning of year	17,438,619	16,114,300
Net assets at end of year	<u>\$ 19,772,173</u>	<u>\$ 17,438,619</u>

*See accompanying notes.*



# Kalkaska County Hospital Authority

## Statements of Cash Flows

	Year Ended June 30	
	2007	2006
<b>Operating activities</b>		
Cash received from patients and third-party payors	\$ 18,625,125	\$ 17,083,684
Cash payments to suppliers for services and goods	(17,326,414)	(16,109,611)
Other receipts from operations	1,223,197	751,354
Net cash provided by operating activities	2,521,908	1,725,427
<b>Noncapital financing activities</b>		
Contributions	12,795	4,437
<b>Investing activities</b>		
Investment income	186,998	74,014
Net purchase of assets limited as to use	(1,121,191)	(988,808)
Net cash used in investing activities	(934,193)	(914,794)
<b>Capital and related financing activities</b>		
Acquisition and construction of capital assets	(1,545,937)	(635,703)
Proceeds from county tax levy	1,119,979	1,086,898
Interest paid on long-term debt	(31,986)	(61,554)
Principal payments on notes payable	(750,000)	(700,000)
Net deferred charges	(5,271)	-
Net cash used in capital and related financing activities	(1,213,215)	(310,359)
Net increase in cash and cash equivalents	387,295	504,711
Cash and cash equivalents at beginning of year	2,956,072	2,451,361
Cash and cash equivalents at end of year	\$ 3,343,367	\$ 2,956,072
<b>Reconciliation of operating income to net cash flows from operating activities</b>		
Operating income	\$ 1,045,768	\$ 226,831
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,154,652	1,205,403
Provision for uncollectible accounts	753,037	688,784
(Increase) decrease in assets:		
Patient accounts receivable	(1,190,572)	(726,479)
Third-party settlements	401,220	(25,812)
Other current assets	68,104	(30,257)
Increase (decrease) in liabilities:		
Trade accounts payable	168,035	53,657
Third-party settlements	(217,500)	259,550
Other accrued liabilities	339,164	73,750
Net cash provided by operating activities	\$ 2,521,908	\$ 1,725,427

See accompanying notes.

# Kalkaska County Hospital Authority

## Notes to Financial Statements

Years Ended June 30, 2007 and 2006

### 1. Nature of Business and Significant Accounting Policies

#### Reporting Entity and Corporate Structure

Kalkaska County Hospital Authority (the Hospital), d/b/a Kalkaska Memorial Health Center, is located in Kalkaska, Michigan, and provides inpatient, outpatient, and long-term care services primarily to the citizens of Kalkaska County, Michigan. The Hospital is organized as a governmental unit in accordance with the Joint Hospital Authority Act 47 of the Michigan Public Acts of 1984. Accordingly, the Hospital is not subject to income taxes, and no income tax provision has been recorded in the financial statements. The Hospital's financial statements are prepared on the accrual basis of accounting.

#### Basis of Presentation

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. The Hospital follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provide a comprehensive look at the Hospital's financial activities. No component units are required to be reported in the Hospital's financial statements. The Hospital has elected not to apply provisions of relevant Financial Accounting Standard Board statements.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

#### Cash and Cash Equivalents

Cash and cash equivalents include cash and investments in highly liquid investments purchased with an original maturity of three months or less.

## Kalkaska County Hospital Authority

### Notes to Financial Statements (continued)

#### **1. Nature of Business and Significant Accounting Policies (continued)**

##### **Assets Limited as to Use**

Assets limited as to use include assets designated by the Hospital's board to provide for future replacement of facilities and equipment.

##### **Property and Equipment**

Property and equipment are stated at cost. Depreciation is computed using straight-line methods over the estimated useful lives of the assets.

At June 30, 2007, the Hospital has building commitments totaling \$1.1 million. There were no building commitments at June 30, 2006.

##### **Deferred Charges**

Deferred charges represent legal, consulting, and financial costs associated with debt financing and are being amortized over the term of the debt agreement.

##### **Classification of Net Assets**

Net assets of the Hospital are classified into two components. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets, net of related debt.

##### **Compensated Absences**

Paid time off is charged to operations when earned. Unused and earned benefits are recorded as a current liability in the financial statements.

## Kalkaska County Hospital Authority

### Notes to Financial Statements (continued)

#### **1. Nature of Business and Significant Accounting Policies (continued)**

##### **Revenue Recognition**

Net patient service revenue is recognized at the time services are provided and is reported net of discounts and allowances (including provision for uncollectible accounts) of \$5,779,852 in 2007 and \$5,051,596 in 2006. The Hospital is designated as a critical access hospital under Medicare regulations. Under this designation, the Hospital receives 101% of reasonable, cost-based reimbursement for inpatient and outpatient services provided to Medicare beneficiaries.

##### **Operating Revenue and Expenses**

The Hospital's statements of revenue, expenses, and changes in net assets distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenue, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

##### **Charity Care**

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care for the years ended June 30, 2007 and 2006, was \$86,629 and \$74,230, respectively.

##### **Proportionate Share Reimbursement Program**

The Hospital participates in the Proportionate Share Reimbursement Program sponsored by the state of Michigan. This resulted in revenue of \$0 and \$4,238 during the years ended June 30, 2007 and 2006, respectively.

## Kalkaska County Hospital Authority

### Notes to Financial Statements (continued)

#### **2. Cash and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the state of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Hospital has designated four banks for the deposit of its funds. The Hospital's deposit policies are in accordance with statutory authority.

The Hospital's cash and investments are subject to several types of risk, which are examined in more detail below:

#### **Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits and investments may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk.

At June 30, 2007 and 2006, the Hospital has \$3,109,415 and \$2,754,930, respectively, in cash and cash equivalents (certificates of deposit, short-term money market funds, checking accounts, and savings accounts) that is uninsured and uncollateralized. The Hospital believes that due to the dollar amounts of deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Hospital evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Kalkaska County Hospital Authority

## Notes to Financial Statements (continued)

### 2. Cash and Investments (continued)

At June 30, the following investments (classified as assets limited as to use) are uninsured. Further, these investments represent investments in any one issuer exceeding 5% of total investments.

<b>Investment</b>	<b>Issuer</b>	<b>Fair Value</b>
<b>June 30, 2007</b>		
Certificates of deposit	Huntington Bank	\$ 2,619,854
Certificates of deposit	JPMorgan Chase	\$ 685,232
<b>June 30, 2006</b>		
Certificates of deposit	Huntington Bank	\$ 1,081,776
Certificates of deposit	JP Morgan Chase	\$ 657,003

### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Hospital's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. At year-end, debt investments are as follows:

<b>Investment</b>	<b>Fair Value</b>	<b>Maturity Date</b>	<b>Call Option</b>
<b>June 30, 2007</b>			
FHLB 4.27%	\$ 494,065	9/30/2008	Not Callable
FHLB 5.51%	499,220	4/26/2010	Quarterly
<b>June 30, 2006</b>			
FHLB 4.27%	\$ 487,655	9/30/2008	Not Callable
FHLB Multi-coupon 5%	498,440	4/28/2008	Quarterly
FHLB Multi-coupon 3%	485,313	9/30/2011	Quarterly

# Kalkaska County Hospital Authority

## Notes to Financial Statements (continued)

### 3. Accounts Receivable

The details of accounts receivable are set forth below:

	2007	2006
Accounts receivable	\$ 3,637,753	\$ 2,932,800
Less:		
Allowance for uncollectible accounts	239,909	195,710
Allowance for contractual adjustments	1,094,504	880,907
Net accounts receivable	2,303,340	1,856,183
Other	20,722	30,344
Total accounts receivable	\$ 2,324,062	\$ 1,886,527

The Hospital grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors was as follows:

	2007	2006
Medicare	37%	32%
Blue Cross/Blue Shield of Michigan	18	19
Medicaid	24	24
Commercial insurance and HMOs	13	16
Self-pay	8	9
Total	100%	100%

### 4. Third-Party Settlements

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Net patient service revenue increased \$472,203 and \$154,151 for the periods June 30, 2007 and 2006, respectively, related to changes in estimated third-party settlements for prior years.

## Kalkaska County Hospital Authority

### Notes to Financial Statements (continued)

#### 4. Third-Party Settlements (continued)

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. For 2007, approximately 86% (87% for 2006) of the Hospital's net patient service revenue is received from the Medicare, Medicaid, and Blue Cross Blue Shield of Michigan programs.

#### 5. Tax Levies

The Hospital is operated under the Joint Hospital Authority Act 47 (the Act) of the Michigan Public Acts of 1984. Under the Act, by April 1 of each year, the Hospital board is required to prepare a balanced budget for the ensuing year. The budget is to ascertain what amount, if any, is to be raised by taxation from the townships belonging to the Authority to meet their respective shares of the expenses over revenue. Upon certification by the Hospital board, the townships are required to pay their share from the funds they have available or from the proceeds of a tax levy. They are authorized to levy up to .4 mil, but levied .01 mil for both the years ended June 30, 2007 and 2006. The required sums are due and payable 120 days after December 1, the date on which local taxes become due and payable in the townships.

In addition to the levy described above, the Act allows a levy up to 2 mils for not more than 10 years for capital improvements when approved at a general or special election in the townships belonging to the Authority.

In May 1997, the electorate approved a 1.7 mil levy for 10 years. The proceeds from the levy are to be used to retire unlimited tax general obligation bonds. The ordinance authorizing the sale of the bonds requires the proceeds of the 1.7 mil tax levy to be deposited in a bond and interest redemption fund. The amount in excess of the debt service payments must be deposited in a capital improvement fund and used for capital improvement purposes.

In May 2007, the electorate approved a 1.6 mil levy for 10 years, with the same terms and conditions as the previous levy.

Tax levy revenue is composed of the following:

	2007	2006
Operating tax levy	\$ 6,146	\$ 5,420
Bond retirement 1.7 mil tax levy	1,113,833	1,081,478
Total	<u>\$ 1,119,979</u>	<u>\$ 1,086,898</u>



# Kalkaska County Hospital Authority

## Notes to Financial Statements (continued)

### 6. Property and Equipment

Costs of capital assets related to depreciable lives for June 30, 2007, are summarized below:

	2006	Additions	Transfers	Retirements	2007	Depreciable Life – Years
Land and land improvements	\$ 934,363	\$ –	\$ –	\$ –	\$ 934,363	5 – 25
Building	14,951,612	–	39,609	–	14,991,221	15 – 40
Equipment	6,055,543	366,812	9,618	–	6,431,973	3 – 20
Construction-in-progress	124,026	1,179,125	(49,227)	–	1,253,924*	
Total	22,065,544	1,545,937	–	–	23,611,481	
Less accumulated depreciation:						
Land and land improvements						
Building	284,792	27,801	–	–	312,593	
Equipment	5,590,671	543,089	–	–	6,133,760	
Total	4,076,824	583,762	–	–	4,660,586	
Net carrying amount	9,952,287	1,154,652	–	–	11,106,939	
	\$ 12,113,257	\$ 391,285	\$ –	\$ –	\$ 12,504,542	

\*Construction-in-progress at June 30, 2007, is composed mainly of costs associated with the development of a dialysis center.

# Kalkaska County Hospital Authority

## Notes to Financial Statements (continued)

### 6. Property and Equipment (continued)

Costs of capital assets related to depreciable lives for June 30, 2006, are summarized below:

	2005	Additions	Transfers	Retirements	2006	Depreciable Life – Years
Land and land improvements	\$ 890,587	\$ –	\$ 43,776	\$ –	\$ 934,363	5 – 25
Building	14,841,355	–	110,257	–	14,951,612	15 – 40
Equipment	5,738,782	340,349	17,795	(41,383)	6,055,543	3 – 20
Construction-in-progress	500	295,354	(171,828)	–	124,026*	
Total	21,471,224	635,703	–	(41,383)	22,065,544	
Less accumulated depreciation:						
Land and land improvements	254,140	30,652	–	–	284,792	
Building	5,045,263	545,408	–	–	5,590,671	
Equipment	3,488,864	629,343	–	(41,383)	4,076,824	
Total	8,788,267	1,205,403	–	(41,383)	9,952,287	
Net carrying amount	\$ 12,682,957	\$ (569,700)	\$ –	\$ –	\$ 12,113,257	

\*Construction-in-progress at June 30, 2006, is composed mainly of costs associated with the purchase of property and the renovations expected related to this property.

# Kalkaska County Hospital Authority

## Notes to Financial Statements (continued)

### 7. Long-Term Debt

Long-term liability activity for the year ended June 30, 2007 was as follows:

	June 30 2006	Current Year Additions	Current Year Reductions	June 30 2007	Amounts Due Within One Year
Series 1998 Bonds	\$ 750,000	\$ -	\$ (750,000)	\$ -	\$ -

Long-term liability activity for the year ended June 30, 2006 was as follows:

	June 30 2005	Current Year Additions	Current Year Reductions	June 30 2006	Amounts Due Within One Year
Series 1998 Bonds	\$1,450,000	\$ -	\$ (700,000)	\$ 750,000	\$ 750,000

The Kalkaska County Hospital Authority, Series 1998 unlimited tax general obligation bonds were payable solely from a \$1.7 mil tax levy and the net revenue of the Hospital. The bonds matured April 1, 2007, and bore interest at 4.85%.

The Hospital intends to issue \$8.4 million in unlimited tax general obligation bonds and up to \$10 million in revenue bonds by November 2007. The proceeds from the 1.6 mil tax levy will be used to retire the unlimited tax general obligation bonds.

### 8. Retirement Plan

The Hospital maintains the Kalkaska Memorial Health Center Retirement Plan, a Section 401(k) plan covering employees having worked more than 1,000 hours per year for two consecutive years. Under the terms of the plan, the Hospital will contribute 1% of employees' compensation and will match employee contributions on a sliding scale up to 4% of employee earnings. Total retirement expense was \$291,660 and \$282,121 for the years ended June 30, 2007 and 2006, respectively.

## Kalkaska County Hospital Authority

### Notes to Financial Statements (continued)

#### **9. Risk Management**

The Hospital is exposed to various risks of loss related to property loss, errors and omissions, employee injuries (workers' compensation), and professional liability claims, as well as medical benefits provided to employees. The Hospital has purchased commercial insurance for the above claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance in any of the past three years.

The Hospital is insured against medical malpractice claims under a claims-based policy, whereby only the claims reported to the insurance carrier during the policy period are covered, regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital must pay a deductible toward the costs of litigating or settling any unasserted claims. In addition, the Hospital bears the risk of ultimate costs of any individual claim exceeding the policy limits for claims asserted in the policy year.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on the occurrences during the claims-made term, but reported subsequently, will be uninsured.

The Hospital is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. No claims have been settled during the past three years that have exceeded policy coverage limits. The cost of this insurance policy represents the Hospital's cost for such claims for the year, and it has been charged to operations as a current expense.

#### **10. Administrative, Laundry, and Laboratory Service Agreements**

The Hospital has entered into agreements with Munson Medical Center and Subsidiary and Munson Healthcare and Subsidiaries to receive administrative services including an administrator, accounting services, physical therapy, certain laboratory tests, and other miscellaneous services. Charges for these services to the Hospital amounted to \$1,597,742 and \$1,405,300 for the years ended June 30, 2007 and 2006, respectively, of which \$308,166 and \$194,383, respectively, is included in accounts payable.